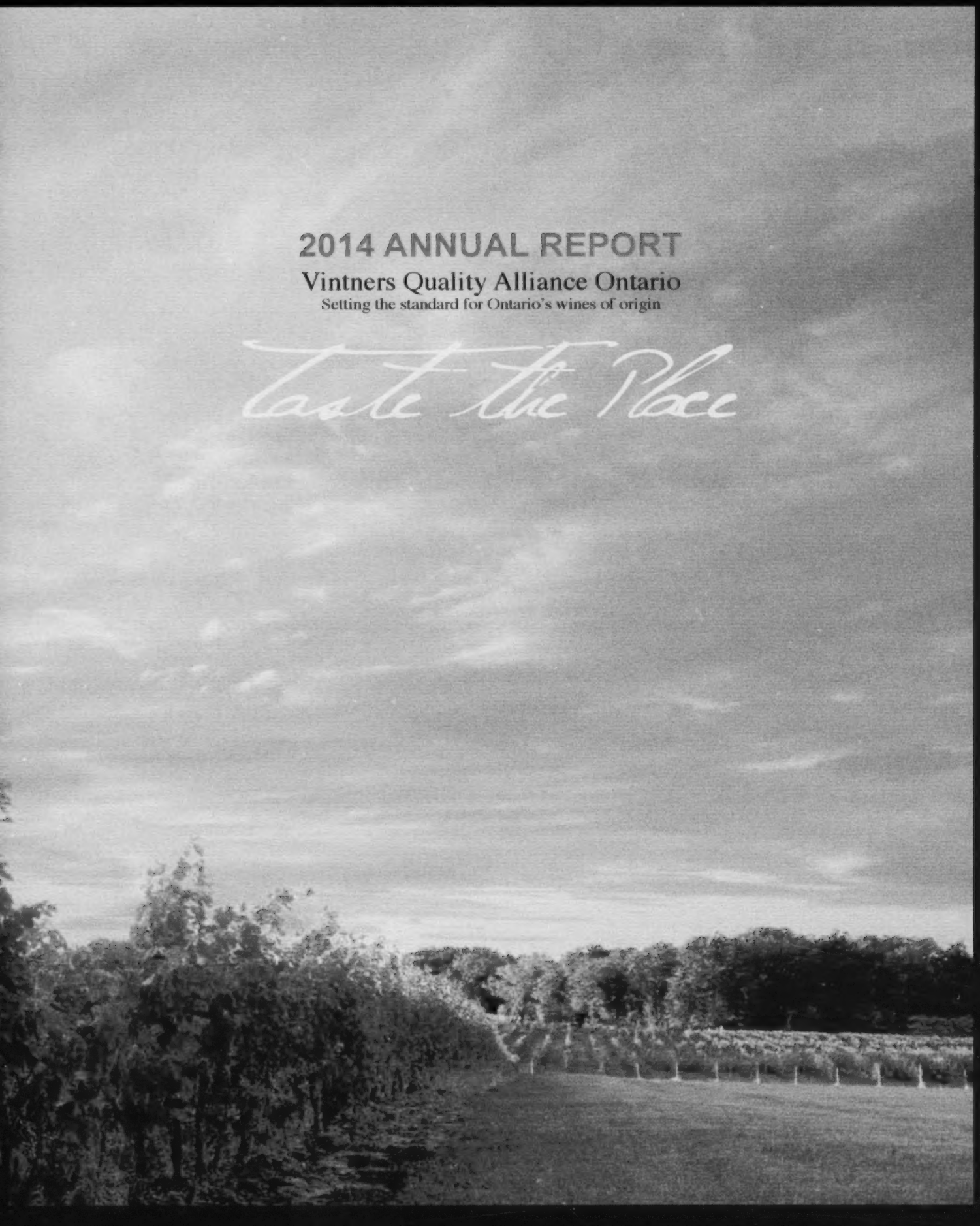
2014 ANNUAL REPORT

Vintners Quality Alliance Ontario

Setting the standard for Ontario's wines of origin

Taste the Place



Officers

Brian Schmidt (6)
President and Chair
(elected from Vineland Estates Winery)

Paul Speck (4)
Vice-Chair
(elected from Henry of Pelham Family Estate Winery)

Greg Berti (6)
Secretary
(elected from Andrew Peller Ltd.)

Newman Smith (6)
Treasurer
(elected from Strewn Inc.)

Staff and Statutory Appointments

Laurie Macdonald
Executive Director

Barbara Dodds
Office Manager (VQA Inspector)

Susan Piovesan
Compliance and Information Officer (VQA Inspector)

Directors

Keith Bown (5)
(elected from Constellation Brands)

Jim Clark (6)
(elected from Colio Estates Winery)

Ken Douglas (3)
Past-Chair

Tony Elenis (5)
(appointed from Ontario Restaurant, Hotel and Motel Association)

Louise Engel (5)
(elected from Featherstone Estates)

Norman Hardie (1)
(elected from Hardie Wines)

Bill Redelmeier (5)
(elected from Southbrook Vineyards)

Mary Shenstone (6)
(appointed from Ontario Ministry of intergovernmental Affairs)

Kevin Watson (5)
(appointed from Grape Growers of Ontario)

Attendance at Board meetings:

Attendance at Board meetings: Six Board meetings were held in 2013-2014.
The number of Board meetings each Director attended is indicated beside their name.

Who We Are

VQA Ontario is Ontario's wine authority that regulates Ontario's wines of origin and the appellation system as defined under the VQA Act of Ontario. It exercises delegated authority from the Province of Ontario to ensure label integrity that allows consumers to identify wines of origin made entirely from Ontario grown grapes.

VQA Ontario is committed to working with and on behalf of consumers and its stakeholders in industry and government to promote a better awareness of Ontario's wine regions and wines of origin.

Vision

Consumers will use Ontario's VQA appellations as their guide to buying authentic wines of origin and quality.

Mission

Effectively manage the appellation system. Encourage continuous improvements in wine quality.
Communicate the VQA assurance of origin and authenticity to consumers.

Strategic goals

Origin, quality, authenticity

Organization Values:

Transparency and Fairness

VQA Ontario will carry out its statutory authority with transparency and fairness, and strive to uphold high ethical standards.

Responsiveness and Communications

VQA Ontario will conduct its operations openly, providing its members and the public access to information and timely responses to inquiries. It will adopt and implement appropriate policies to respect the confidentiality of its members and stakeholders. It will promote the value and benefits of VQA wines to consumers.

Firmness and Responsibility

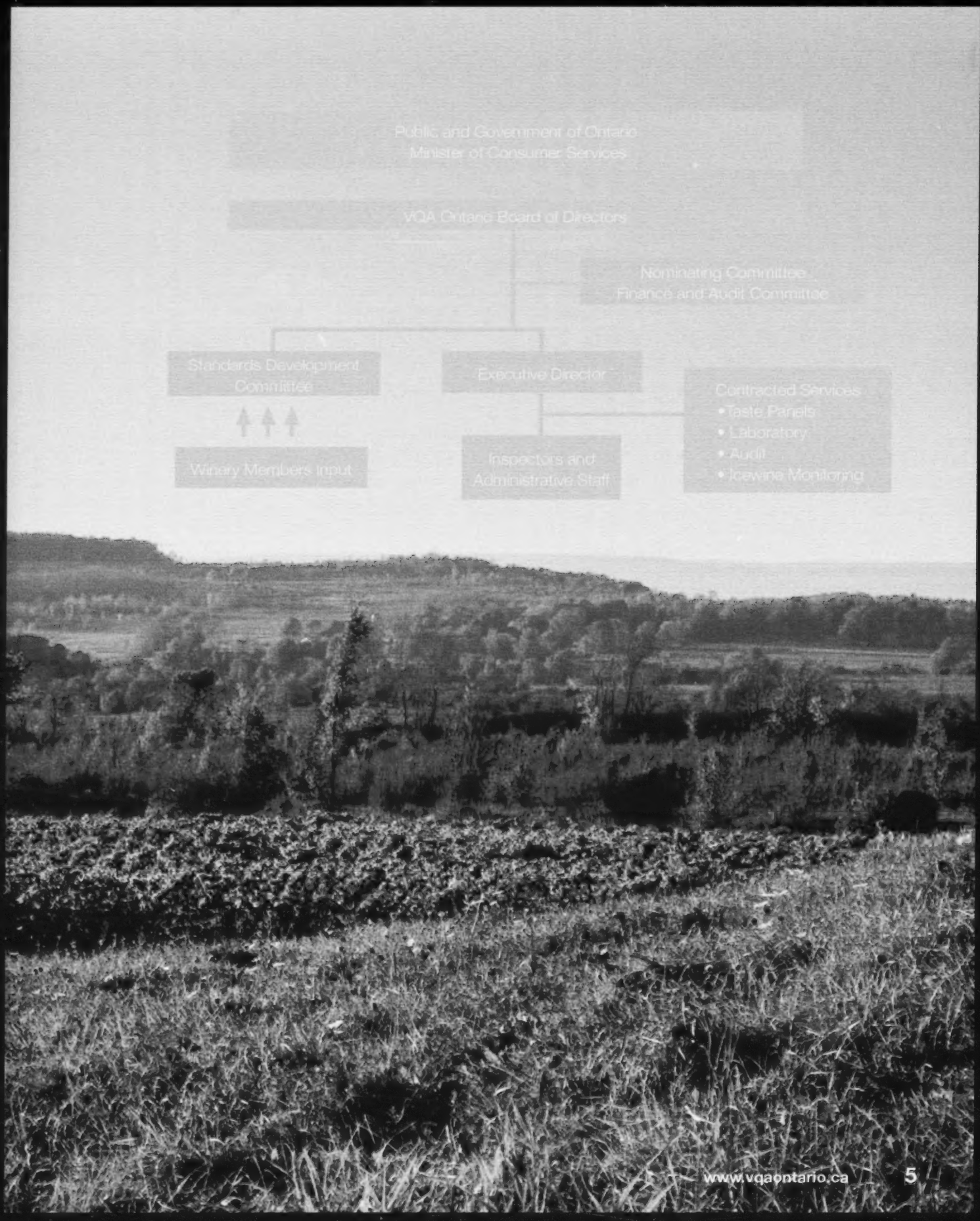
VQA Ontario will discharge its regulatory responsibilities firmly to ensure VQA terms, descriptions and designations are not misused and consumers can rely on label integrity for all VQA wines.

Accountability

VQA Ontario will be accountable for its decisions and promote effective and fair dispute mediation to resolve conflict.

Effectiveness

VQA Ontario will strive to carry out efficient and cost-effective operations, and continue to pursue service improvements in all areas of operations.


Public and Government of Ontario
Minister of Consumer Services
VQA Ontario Board of Directors
Nominating Committee
Finance and Audit Committee
Standards Development Committee
Executive Director
Contracted Services
• Taste Panels
• Laboratory
• Audit
• Icewine Monitoring
Winery Members Input
Inspectors and Administrative Staff

Message from the Chair

With our fundamental purpose in mind, this year was all about appellation for VQA Ontario. In my role as Chair, I attended several meetings with the Ontario Government and industry stakeholders about the renewal of the provincial VQA wine strategy. This is an important exercise and VQA Ontario's perspective at this table is grounded in promoting and protecting the integrity of the appellations in the public interest. As the VQA sector grows, with all kinds of wineries, business models and aspirations, we need to stay focused on our core values of origin, authenticity and quality that define VQA wines. These are things that consumers care about. I am confident that the new strategy will solidify the sector's achievements to date and also lead us to explore new ideas for future success for all wineries making VQA wines.

We continue to spend a lot of time at VQA Ontario discussing how to deliver more value to consumers through the appellation system. More specifically in our direct sphere of influence and action, we need to add value through VQA Ontario's role as regulator and independent authority on all things appellation. I am very excited about a research project we are doing that I have dubbed "Appellation 2.0" that I hope will help us better explain the appellations and their significance to our wines. The research will update our knowledge of the physical aspects of each regions' soil, topography, and climate and gather information about our stewardship of the appellations through viticulture and winemaking practices. The next phase of the project will be to see how these things add to the character of individual wines. I know that many might say we are not yet ready to closely define our appellations and that may be, but more information can only help when it comes to deciding if or when to make this judgment. This is not a short term project and we need to start somewhere.

VQA Ontario and our member wineries are immersed in the wine and grape industry on a day to day basis. We deal with wine composition, wine testing, wine labelling and technical standards on a very detailed level. It's no surprise that we can talk for hours or days about the technical intricacies of our wines and our appellations. Once we process all the data from Appellation 2.0 perhaps these discussions will go on even longer.
As much as I am fascinated with the technical details as a winemaker, I understand that we need a more simple and direct message that casual consumers can relate to. To get there, with help from the Wine Council of Ontario and an ad agency, we have developed the Taste the Place tagline to promote the essence of VQA and the appellations:

Taste the Place

VQA is about ***place***.

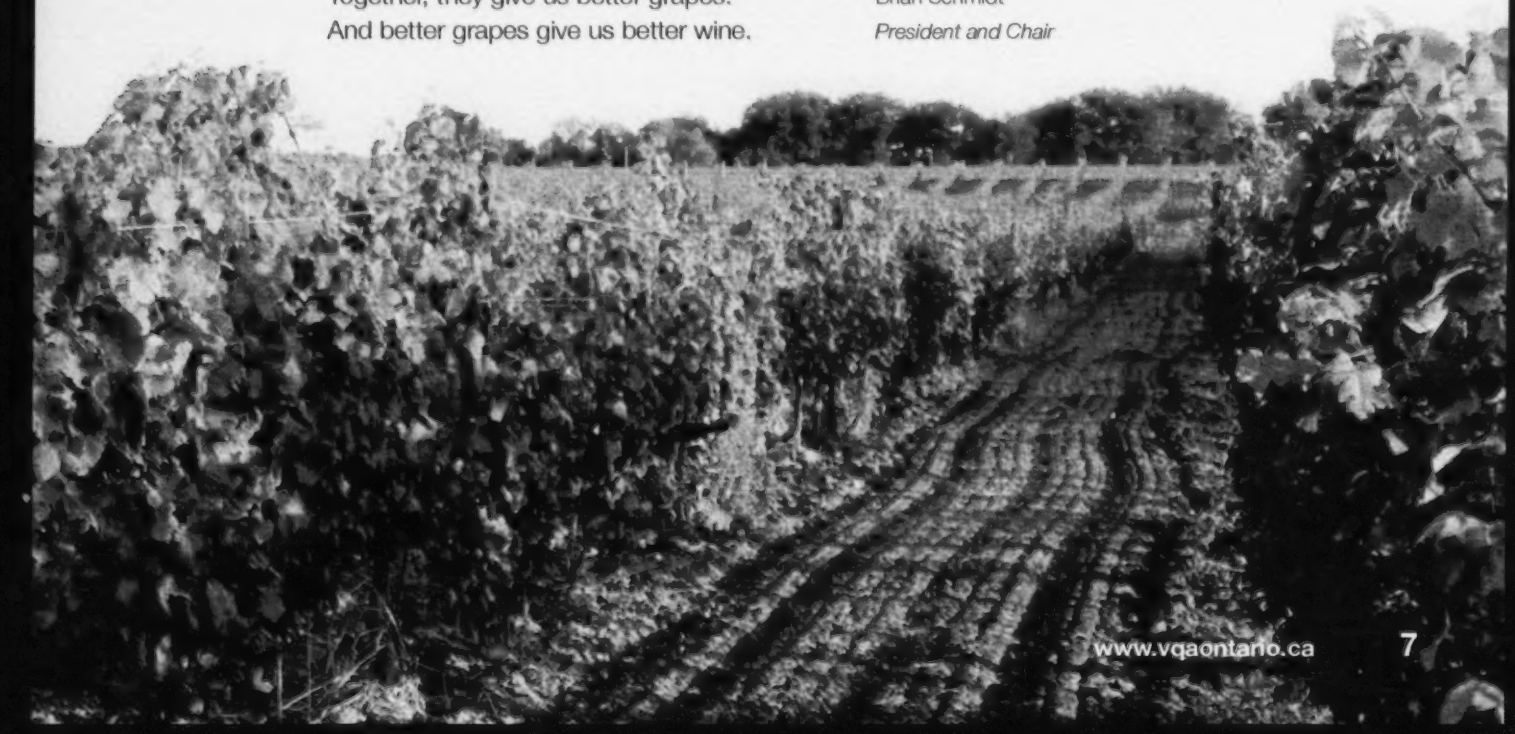
Special places right here at home.
Places like nowhere else in the world.
Where the soil, the slope, the sunshine,
the warmth, the rainfall and the craftsmanship
all ***matter***.

Together, they give us better grapes.
And better grapes give us better wine.

The simple concept that VQA is about place and that each place is reflected in the glass distills what wine origin is all about and why it matters. I hope that wineries, grape growers, those in retail, hospitality and education and all our other partners will find this a useful shorthand to explain VQA to consumers.

As much as we try to simplify things, I have learned that VQA Ontario and its governance is anything but simple. We need to be careful to stay within our legal role and mandate, serve a variety of stakeholders who are sometimes at odds, stay out of politics and get the balance of regulation right for both consumers and wineries. As head of the organization and the Board, I am more visible than others, but I am backed up by very capable Board members and staff and they deserve much of the credit for VQA Ontario's accomplishments. I am very grateful for their ongoing advice and contributions. We have been very engaged with government and industry associations this year and their insights have also been of great value to me. I would also like to thank the many others – too many to name here – that make crucial inputs to VQA Ontario and the health of the appellation system.

Brian Schmidt
President and Chair



Vintage report 2013

Niagara Peninsula • Lake Erie North Shore • Prince Edward County

Conditions

Weather conditions during the 2013 season were quite variable in all of the major wine regions but on average, the temperatures were close to normal and precipitation ranged from normal to a bit wetter than normal.

January and February were relatively mild presenting limited opportunities for the Icewine harvest. Spring was cool and wet ending with some isolated late frosts in Niagara and Prince Edward County and then moving quickly into hot weather. June and July were both warm, with humid periods and stormy conditions appearing often throughout Southern Ontario.

Within the trends, there was significant variation between appellations and specific sites. After a wet mid-summer, August brought more stable weather, warm to normal temperatures and less rain and the grapes ripened more or less on schedule.

Harvest

September started with some spotty hail in the Niagara Peninsula causing some minor damage to grapes but progressed into a pleasant, dry month which set the stage for harvest. Temperatures through September and October were slightly higher than normal but October was wet putting pressure on harvest schedules and many wineries worked long hours to optimize harvest strategies around the weather. Lake Erie North Shore

was considerably drier than other regions in September and dry through the beginning of October with significant rains holding off until the end of the month. Harvest conditions were generally good. Prince Edward County saw ideal warm and dry conditions for harvest in September progressing to a wetter October. All regions experienced higher than normal daytime temperatures and a higher than usual diurnal shift between daily highs and night time lows. It was a relatively large crop and the harvest window for all regions stretched well into November for many growers and wineries.

Preliminary registrations for Icewine and Late Harvest grapes show 6600 tonnes of grapes netted for the 2013 season. This is a substantial increase from last year's 5550 tonnes and reflects new plantings coming into production and the larger overall crop in 2013. The year's tonnage equals the previous record tonnage recorded in 2007. Icewine harvest got off to an early start with temperatures falling below – 8 degrees in all three appellations by November 24th.

Wine Expectations

2013 was an interesting year with some significant weather variations through the growing season. Earlier ripening varieties benefited from good harvest conditions in September. Ontario wines can be expected to play to their cool climate strengths this year – Chardonnay, Riesling, Cabernet Franc and Pinot Noir should fare well along with the aromatic whites. The variability of weather may well highlight the unique character of individual appellations, and will certainly differentiate wines from specific vineyards.

Operations

Executive Director's Report

On the operational side, VQA Ontario's business remained more or less routine for matters related to the administration of the VQA Act and Regulations. Wine approvals, audits and inspections, investigations and enforcement all continued at levels slightly ahead of the previous year. Growth continued with the number of participating wineries up to 145 and the number of wine approvals issued increased by 14% to 1849, with a 7% increase in the total volume of approved wines to 2.6 million cases.

More statistics on wine production and VQA activities are available later in this report and on our website and we encourage you to browse through these reports and contact us with suggestions on statistics that could be of interest.

VQA Ontario has kept up its involvement in national and international issues that affect VQA or its underlying standards and reputation. Early in 2014, the Canadian government enshrined a definition of Icewine in federal regulations. The definition is very basic, requiring only that all grapes used be "naturally frozen on the vine". While this will have no impact on Icewine produced in Ontario or British Columbia since these are regulated under Provincial statute, it is an important step forward in recognizing and protecting authentic Canadian Icewine. The new definition applies to all wines made in Canada for interprovincial or export sale.

Also of interest nationally, the ownership of the certification trademarks for Icewine and VQA and the VQA logo was transferred from VQA of Canada (an Ontario based trade association) to the Canadian Vintners Association (a national trade association). This transfer recognizes the national and international use and significance of

these marks. VQA Ontario regulates the use of these terms for Ontario wines under a non-enforcement agreement which is continued with the ownership transfer and we will continue to provide input to the management of the marks.

VQA Ontario is a delegated authority of the Ontario government and has many synergies with the Ministry of Consumer Services. The VQA wine strategy discussions now ongoing are a great opportunity for VQA to mature and evolve with continued industry growth and changing consumer perceptions. This past year, the Ministry launched a Consumer Protection Ontario brand and campaign. The campaign encourages consumers to "ask the right questions" to make sure they are informed and make good decisions about their purchases. In our focus on the mechanics of the rules and regulations, we sometimes forget that the purpose of the VQA Act is to create a system that answers "the right questions" about the wine they are buying, starting with "where did it come from?".

There are a lot of people that play an important part in VQA Ontario's success and that I should recognize and thank. This year I want to single out my staff, Barbara Dodds and Susan Piovesan, who give their full time effort and sometimes a lot more whenever I need it. Many do not realize how much these two accomplish in-house. Together, they manage the office, do all the bookkeeping and administration work for wine approvals and audit, manage and conduct inspections, generate statistics for and write material for our website and the many reports we issue, provide IT support, website programming and development, help wineries navigate the system and more. They get an immense amount of work done on a shoestring. A big thank you to both.

L. Macdonald

Laurie Macdonald
Executive Director

Performance goals

Manage Ontario's wine appellation system with a focus on origin, quality and authenticity

Promote recognition and understanding of the VQA appellation system

Protect consumers through label integrity

Provide a strong transparent and credible framework for the production and labelling of wines of origin

Activity Highlights

10 new member wineries
97% overall success rate for wine approval applications
Chardonnay the top production VQA varietal wine
1437 export certificates issued
324 audits and inspections conducted
6 compliance orders issued
8 charges laid

Membership

145 wineries were registered as participants in the VQA program at the end of March 2014. These included 5 large wineries (sales of over 750,000 litres of VQA wines) 19 medium class wineries (sales of 100,000 to 750,000 litres of VQA wines) and 121 small wineries (sales of up to 100,000 litres of VQA wines).

Regular member communications included newsletters and bulletins. The bulletin board on the secure member site has been expanded to include important dates and process information as well as news.

Product Approvals

1911 applications for approval to use the VQA designation and descriptive terms regulated under the VQA Act were processed. Each wine must successfully complete comprehensive quality assurance testing including a taste test, laboratory analysis and packaging review before being certified as a wine of origin. Approvals were granted for 1849 wines, and denied for 62.

Quality

Maintaining minimum quality standards continues to be an important part of VQA Ontario's mandate. In addition to enforcing standards, VQA Ontario runs two programs to support and encourage wineries to pursue the best quality outcomes possible and exceed minimum standards. Winemakers Forums, held in all wine regions, are a venue where winemakers share experiences and best practices in an informal setting and discuss techniques that are especially successful in Ontario's unique growing

conditions. The second program provides an analysis of outcomes at the VQA tasting panel that allows wineries to benchmark themselves and gain insights into how performance might be improved. These two programs often work together with information from the tasting analysis providing topics for discussion at the Winemakers Forum. VQA Ontario continues to work with the Cool Climate Oenology and Viticulture Institute to promote professional development.

Inspections and Audits

164 routine audits were conducted during 2013 – 2014 to verify compliance with origin and production standards for all approved VQA wines. Each winery member was subject to an on-site audit on a 6 to 10 month interval, depending on their compliance record. In addition, 160 random inspections were completed at the retail level, focused primarily on ensuring ongoing compliance with VQA packaging and labelling regulations. As a result of audits and inspections, follow up was conducted in 54 cases. The majority of issues addressed were minor in nature. An electronic transfer reporting system was introduced in 2014 to simplify VQA record keeping for wineries.

Enforcement

Most compliance issues were resolved with warnings and corrective actions. VQA Ontario issued 6 compliance orders in relation to a winery using regulated terms without approval or failing to take corrective action within a stipulated time. Eight charges were laid under the VQA Act in 2013-2014 involving two VQA wineries and one non-VQA winery alleged to be using VQA terms without approval.

Trade and Export Development

Along with stakeholders from industry and government, VQA Ontario continued to take part in discussions to promote recognition and acceptance of the VQA appellation standard and access to world markets. In 2013, this included participation in the World Wine Trade Group, the APEC Regulators Forum and a newly formed International Technical Forum aimed at streamlining import testing procedures among wine trading countries. VQA Ontario provides an independent certification process required by the European Union as a condition of access to its member states. 1437 certificates were issued for 281 wines.

Appellation Awareness

VQA Ontario participated in and supported a number of programs aimed at informing members, the public, consumers and industry groups about VQA appellations of origin, quality standards and the value of a regulated appellation system.

Statistics

VQA Wine Production

All statistics are for the period of April 1, 2013 to March 31, 2014. These figures are based on wines approved during this period and are calculated using volumes declared at the time of submission for approval. Reported volumes may reflect wines that have not yet been released but will not reflect wines that may be finished but not yet submitted for approval. Statistics for previous years are available in past annual reports.

Production summary

Wine Category	# of Wines	Volume (9L cases)	Change from last year (volume)	Estimated grape tonnage
Table Wine	1,616	2,414,101	+5%	29,900
Icewine	133	119,290	+79%	6,100
Sparkling	56	56,641	+11%	700
Late Harvest	28	14,344	-13%	260
Other	16	2,118	+18%	30
Total	**1,849**	**2,606,494**	**+7%**	**37,000**

Regional and Varietal Production

Appellations

This table includes all wines labelled with the stated appellation on the principal display panel. These wines must contain at least 85% content from the stated appellation. Wines labelled with one of the ten sub-appellations of the Niagara Peninsula must contain 100% content from the stated sub-appellation. The proportion of production by appellation remained fairly steady over the previous year.

Appellations

As declared on label	Cases (9L)	% of all VQA wines
Niagara Peninsula	1,557,180	60%
Ontario	672,258	26%
Sub-appellations of Niagara	316,689	12%
Lake Erie North Shore	33,586	1%
Prince Edward County	26,782	1%

Grape varieties used in all VQA wines (Total of 47 different varietals)

Variety	% of total production (by volume)
Chardonnay	17%
Riesling	15%
Merlot	11%
Cabernet Franc	10%
Vidal Blanc	8%
Cabernet Sauvignon	8%
Pinot Gris/Pinot Grigio	7%
Pinot Noir	6%
Sauvignon Blanc	5%
Baco Noir	4%
Gewurztraminer	3%
Others	6%

White grape varieties used in all VQA wines – 57%

Red grape varieties used in all VQA wines – 43%

The top four varieties remained the same as in previous years with Chardonnay returning to the top volume spot and Riesling falling back to second overall. Pinot Gris advanced to 7% of volume over 5% last year and other varieties were mostly unchanged.

Table wines

The table wine category includes white, red and rosé wines. The overall production of table wine increased by 5% last year, similar to the 3% increase the previous year. Wines labelled with a grape variety or varieties still dominate the table wine category, accounting for over 90% of all table wines. Rose production remained the same while the split between white/red production shifted from 51/46 % respectively to 55/42 % in 2013-2014.

Table Wines

Colour		Litres	Cases (9L)
White (55%)	Varietal	11,282,742	1,253,638
	Non-varietal	552,766	61,418
	Total white	**11,835,508**	**1,315,056**
Red (42%)	Varietal	8,075,122	897,236
	Non-varietal	1,107,067	123,007
	Total red	**9,182,189**	**1,020,243**
Rosé (3%)	Varietal	391,637	43,515
	Non-varietal	317,569	35,285
	Total rosé	**709,206**	**78,800**

Popular single-varietal table wines

The top four red and white varietals remain the same as in previous years. Chardonnay and Riesling remain the top whites in volume but Pinot Gris/Grigio varietal wines move to third spot with a 50% increase in volume over last year. The main reds retained the same order but overall production volume of all but Pinot Noir dropped off slightly.

This table includes the top four varieties used in wines that are labelled with a single grape variety. These wines must contain at least 85% of the stated variety.

Table Wines

	Varietal	Litres	Cases (9L)
White	Chardonnay	3,277,501	364,167
	Riesling	2,424,663	269,407
	Pinot Gris/Pinot Grigio	1,627,173	180,797
	Sauvignon Blanc	1,078,363	119,818
Red	Merlot	1,116,454	124,050
	Pinot Noir	1,099,213	122,135
	Cabernet Franc	708,439	78,715
	Baco Noir	624,628	69,403

Icewine

Variety	Litres	Cases (9L)
Vidal	787,066	87,452
Cabernet Franc	125,065	13,896
Riesling	96,777	10,753
Cabernet Sauvignon	43,987	4,887
Gewürztraminer	10,801	1,200
Others	9,922	1,102
Total	**1,073,618**	**119,290**

Other Wines

	Litres	Cases (9L)
Late Harvest and Botrytis Affected	129,098	14,344
Fortified and Liqueur wines and Vin de Cure	19,062	2,118
Sparkling wines	509,769	56,641

VQA Ontario Wine Sales

Year ending March 31, 2014

By Volume

	Litres (2014)	Litres (2013)	% Change
Winery Retail	5,229,167	5,033,210	3.9%
Licensees	3,332,752	3,328,209	0.1%
LCBO (shipped)	7,485,604	7,555,633	-0.9%
Outside of Ontario and miscellaneous	1,402,305	1,455,855	- 3.7%
Total	**17,449,828**	**17,372,907**	**0.4%**

By Retail Value

	Retail value ($) (2014)	Retail value ($) (2013)	% Change
Winery Retail	120,270,439	115,788,411	3.9%
Licensees	55,197,228	53,675,521	2.8%
LCBO (shipped)	120,635,296	116,596,243	3.5%
Outside of Ontario and miscellaneous	99,378,886	60,039,441	65.5%
Total	**395,481,849**	**346,099,616**	**14.3%**

Wine Approvals and Compliance

Every wine that carries a regulated appellation of origin and the VQA certification has completed a rigorous approval process. Once a wine is finished and ready to bottle it is submitted to VQA Ontario for testing and approval. The evaluation includes taste tests, laboratory tests and label reviews to ensure the wine meets quality standards and is labelled according to VQA regulations. Labelling regulations reserve certain terminology for eligible VQA wines and set standards for declaring origin, varietal content, vintage and other attributes. These regulations ensure consumers are not misled with respect to the wine content. Only after having successfully completed all components of this process can a wine receive approval and be released for sale, using regulated terms and descriptions. A range of inspection and audit programs also verify that underlying standards are met.

Activities

Applications for wine approval evaluated – 1911
Number of wines approved for VQA status – 1849

Performance Measures

Wine Approvals
Overall success rate – 97%

Laboratory analysis
Average time to completion – 13 days
% of tests completed within 15 days – 78%
% of tests completed within 21 day target – 97%
Pass rate at laboratory – 99.3% (final status)

Sensory analysis
Average time to completion – 5 days
% of tests completed within 15 days – 99%
% of tests completed within 21 day target – 99.9%
Pass rate at sensory panel – 98.5% (final status)

Online query and reporting system uptime – 99.7%
(100% during business hours)

Compliance and Enforcement

VQA Ontario enforces compliance with the VQA Act and regulations as its primary mandate. In addition to the testing completed during the wine approval process, the regulatory process includes monitoring of grape quality at harvest through independent sugar testing, and regular audits and inspections related to wine origin and content, wine making processes, record-keeping, labelling and advertising. These steps ensure that the wine meets the technical standard, the label complies with the regulations and that the wine offered for sale has completed the approval process.

Activities

Full on-site audits - 164
Retail store inspections - 160
Investigations - 5
Random testing of approved wines - 47
Warnings and minor corrective orders issued - 36
Compliance orders issued – 6
Charges laid – 8

Performance Measures

Percentage of audits completed with no issues raised – 80%

Percentage of wines found to be compliant during audits - 99%

Percentage of wines found to be compliant during inspections – 98%

Percentage of wines found to be compliant upon random chemical analysis – 100%

The overall level of compliance with VQA regulations within Ontario continues to be very good. The majority of infractions are relatively minor and many potential issues are flagged and corrected before products reach the consumer market. Winery compliance with correction requests is excellent and few infractions require enforcement action to achieve compliance.

Financial Summary

VQA Ontario is funded by its member wineries through sales levies and fees for service. It continues to seek out ways to maximize the efficiency of service delivery, including sharing services with other agencies. VQA Ontario acknowledges the Liquor Control Board of Ontario for its valued assistance and cooperation in providing contracted services that increase VQA Ontario's efficiency in performing its regulatory role.

This summary is drawn from the auditor's report and financial statements for the year ended March 31, 2014.

Revenue exceeded expenditures by $114,625 for the year ended March 31, 2014. This is similar to the previous year and reflects some expenses that were less than budgeted. Total revenue was $1,627,413 compared to total expenses of $1,512,788. Net assets carried forward are $762,612 up from $647,987 in 2013. Net assets include restricted funds in the amount of $200,000 that are allocated to a legal contingency fund as well as general operating and wind-down contingencies.

Revenue for fiscal 2014 was derived primarily from sales levies ($891,935) and approval fees ($496,639).

Major components of the approximately $1.5 million in expenses were wine approvals and quality monitoring ($560,915), public education ($250,000) and employee costs ($381,505).

Financial Statements

Kopstick Osher, LLP
Chartered Professional Accountants

Mark Kopstick, CPA, CA
mark@koposhca.com
Benjamin Osher, CPA, CA
ben@koposhca.com
William Genga, B.Comm
will@koposhca.com

In association with
Reiner Goebel, CPA, CA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Vintners Quality Alliance Ontario

We have audited the accompanying financial statements of Vintners Quality Alliance Ontario which comprise the statements of financial position as at March 31, 2014, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Vintners Quality Alliance Ontario as at March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Kopstick Osher

KOPSTICK OSHER, LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 11, 2014

Statement of Financial Position

As at March 31, 2014

	2014	2013
ASSETS		
Current		
Cash	$ 302,522	$ 288,172
Investments - Note 3	586,118	409,731
Accounts receivable - Note 4	86,157	98,847
Prepaid expenses	6,211	5,845
	981,008	802,595
Investments - Note 3	84,863	105,505
Capital - Note 5	5,374	3,370
Intangible - Note 6	17,614	22,151
	$ 1,088,859	$ 933,621
LIABILITIES		
Current		
Accounts payable and accruals - Note 7	$ 317,577	$ 274,267
Deferred revenue - Note 8	8,670	11,367
	326,247	285,634
NET ASSETS		
Net assets	762,612	647,987
	$ 1,088,859	$ 933,621

The accompanying notes form an integral part of these financial statements

APPROVED BY THE BOARD:

Statement of Changes in Net Assets

For the year ended
March 31, 2014

	Invested in capital and intangible assets	Internally restricted for legal and enforcement fund (note 9)	Unrestricted	2014 Total	2013 Total
Net assets - beginning of year	$ 25,522	$ 200,000	$ 422,465	$ 647,987	$ 529,509
Excess of revenues over expenses	-	-	114,625	114,625	118,478
Purchase of capital assets	3,813	-	(3,813)	-	-
Purchase of intangible assets	9,240	-	(9,240)	-	-
Amortization	(15,586)	-	15,586	-	-
Net assets - end of year	$ 22,989	$ 200,000	$ 539,623	$ 762,612	$ 647,987

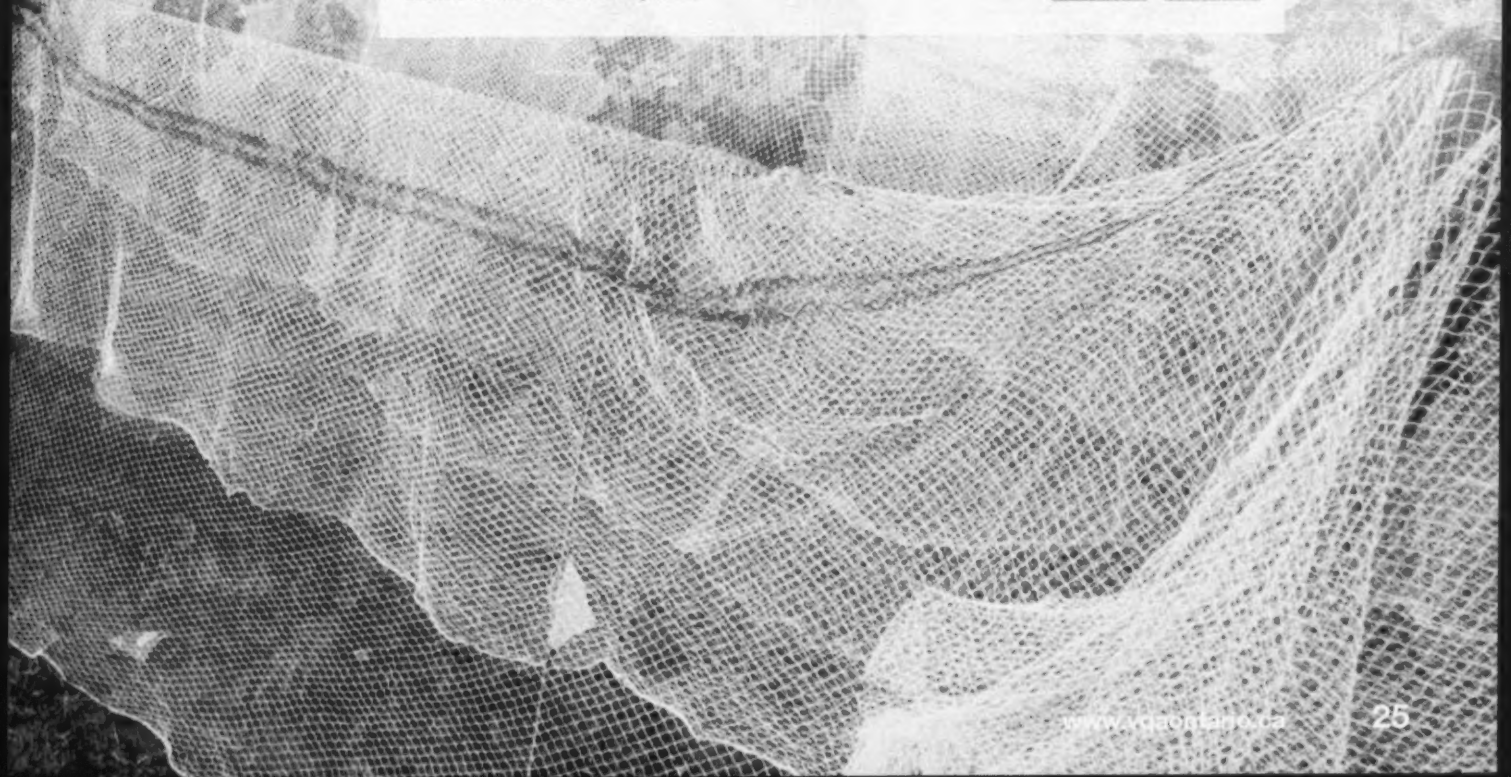
The accompanying notes form an integral part of these financial statements

Statement of Operations

For the year ended
March 31, 2014

	2014	2013
Revenues		
Membership fees	$ 143,500	$ 136,000
Bottle fees	891,935	873,298
Approval fees	496,639	442,479
Federal government grant - IRAP	60,000	-
Interest income	6,124	6,614
Other income	29,215	20,483
	1,627,413	1,478,874
Expenses		
Salaries and benefits	381,505	376,137
Contracted services	27,740	19,840
Public education	250,000	250,000
Approvals	560,915	480,360
Quality assurance and inspection	15,348	19,335
Strategic planning	-	11,966
Export development and trade	2,773	5,145
Appellations	74,770	-
Weather monitoring	4,000	4,000
Meetings	8,365	5,745
Travel	5,593	4,499
Rent and occupancy	38,400	38,400
Office and general	19,706	24,085
Printing and mailing	11,697	9,910
Telephone and communications	7,870	7,278
Insurance	17,130	17,692
Professional services	71,390	64,274
Amortization of capital assets	1,809	1,330
Amortization of intangible assets	13,777	20,400
	1,512,788	1,360,396
Excess of revenues over expenses	$ 114,625	$ 118,478

The accompanying notes form an integral part of these financial statements



Statement of Cash Flows

For the year ended March 31, 2014

	2014	2013
Cash flows from operating activities		
Excess of revenues over expenses	$ 114,625	$ 118,478
Non-cash items:		
Amortization of capital assets	1,809	1,330
Amortization of intangible assets	13,777	20,400
Interest capitalized on investments	(5,745)	(6,360)
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	12,690	(12,494)
Decrease (increase) in prepaid expenses	(366)	2,838
Increase in accounts payable and accruals	43,310	34,556
Decrease in deferred revenue	(2,697)	(13,940)
	177,403	144,808
Cash flows from investing activities		
Purchase of investments	(561,628)	(429,104)
Proceeds from disposal of investments	411,628	382,197
Purchase of capital assets	(3,813)	(1,517)
Purchase of intangible assets	(9,240)	(1,400)
	(163,053)	(49,824)
Cash flows from financing activities	-	-
Increase in cash	14,350	94,984
Cash - beginning of year	288,172	193,188
Cash - end of year	$ 302,522	$ 288,172

The accompanying notes form an integral part of these financial statements

Notes to Financial Statements

March 31, 2014

1. Purpose and legal form of the organization

Vintners Quality Alliance Ontario is an independent organization that administers the Vintners Quality Alliance Act, 1999 and its regulations through an administrative agreement with the Ontario government. It establishes, monitors and enforces a system of quality assurance and verification of product origin for wines bearing the VQA logo.

Vintners Quality Alliance Ontario exists as a not-for-profit corporation without share capital. It is not subject to income tax.

2. Significant accounting policies

Basis of presentation

The financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Revenue recognition

Vintners Quality Alliance follows the deferral method of accounting for revenues. All revenues are recognized in the year to which they pertain.

Investments

Investments consist of fixed income term deposits whose term to maturity is greater than three months from the date of acquisition. Fixed income investments maturing within twelve months from year-end are classified as current.

The investments are classified as held to maturity and are recorded at amortized cost as it is management's primary objective to hold investments to maturity.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

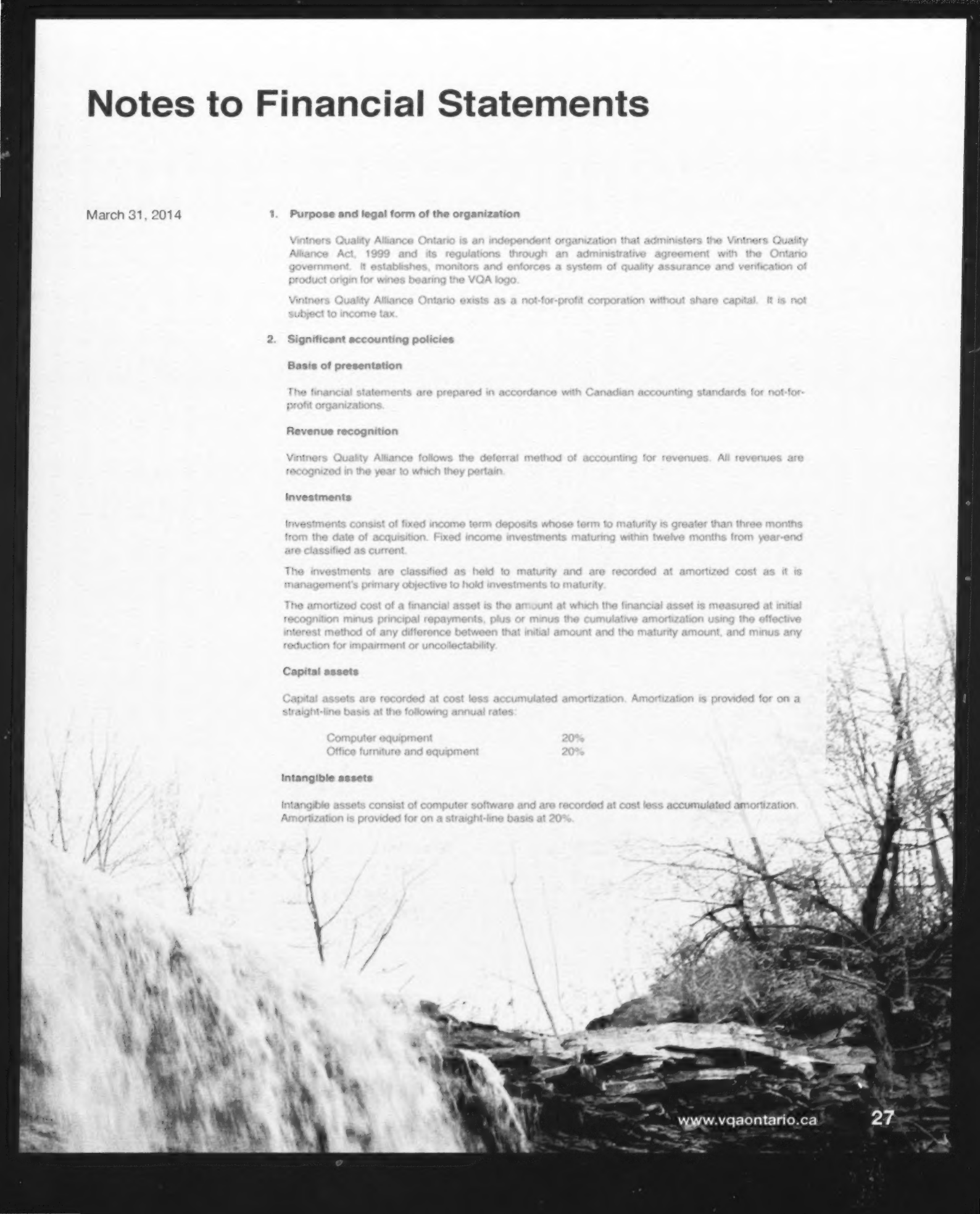
Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at the following annual rates:

Computer equipment	20%
Office furniture and equipment	20%

Intangible assets

Intangible assets consist of computer software and are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis at 20%.



Notes to Financial Statements

March 31, 2014

2. Significant accounting policies (continued)

Contributed materials and services

The organization receives substantial contributed services from members and others through participation on the Board of Directors and other committees. Because of the difficulty in determining their fair value, such services are not recorded in these financial statements.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Financial instruments

Financial assets and liabilities are initially recognized at fair value and their subsequent measurement is dependant on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the organization's designation of such instruments.

Cash
Cash is classified as held for trading, which is measured at fair value. Any fair value fluctuations are included in income.

Investments
Investments are classified as held to maturity, which are measured at amortized cost using the effective interest rate method.

Accounts receivable
Accounts receivable are classified as loans and receivables, which are measured at amortized cost using the effective interest rate method.

Accounts payable and accruals
Accounts payable and accruals are classified as other liabilities, which are measured at amortized cost using the effective interest rate method.

Effective interest rate method
The organization uses the effective interest rate method to recognize interest income or expense for financial instruments.

Notes to Financial Statements

March 31, 2014

3. Investments

	Face value	Amortized Cost
CIBC GIC - 0.90%, maturing July 15, 2014	$ 125,749	$ 126,552
CIBC GIC - 1.15%, maturing October 1, 2014	101,100	101,676
CIBC GIC - 1.10%, maturing October 16, 2014	104,977	106,660
CIBC GIC - 0.80%, maturing January 5, 2015	150,000	150,286
CIBC GIC - 0.80%, maturing January 27, 2015	100,804	100,944
CIBC GIC - 1.15%, maturing April 29, 2015	83,974	84,863
Total	666,604	670,981
Less: portion maturing within one year of the year-end date	582,630	586,118
Classified as long-term	83,974	84,863

At March 31, 2013, total investments at face value and amortized cost were $509,104 and $515,236, respectively.

4. Accounts receivable

	2014	2013
Trade receivables owing from members	$ 77,761	$ 98,847
Harmonized sales tax recoverable	8,396	-
	$ 86,157	$ 98,847

5. Capital assets

	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
Computer equipment	$ 20,109	$ 17,710	$ 2,399	$ 2,703
Office furniture and equipment	9,489	6,514	2,975	667
	$ 29,598	$ 24,224	$ 5,374	$ 3,370

6. Intangible assets

	Cost	Accumulated Amortization	2014 Net Book Value	2013 Net Book Value
Computer software	$ 120,302	$ 102,688	$ 17,614	$ 22,151

Notes to Financial Statements

March 31, 2014

7. Accounts payable and accruals

	2014	2013
Trade payables and accrued liabilities	$ 307,136	$ 240,373
Payroll taxes	10,441	10,296
Harmonized sales tax	-	23,598
	$ 317,577	$ 274,267

8. Deferred revenue

Deferred revenue represents membership fees and product approval fees received, which relate to the subsequent year.

9. Net assets internally restricted for legal and enforcement fund

Net assets of $200,000 have been restricted for a specific purpose. They may be used only for enforcing adherence to the regulations of the Vintners Quality Alliance Act.

10. Financial instruments

Fair value of financial instruments

The fair value of a financial instrument is the estimated amount that Vintners Quality Alliance Ontario would receive or pay to settle a financial asset or financial liability at the reporting date.

The carrying values of cash, investments, accounts receivable and accounts payable approximate their fair values due to their liquidity.

Notes to Financial Statements

March 31, 2014

10. Financial instruments (continued)

Risk management

Risk management is incorporated into Vintners Quality Alliance Ontario day to day management activities and an annual review of risks is completed by the Board.

Vintners Quality Alliance Ontario has exposure to the following risk associated with its financial instruments.

Credit risk
The organization maintains cash and investments, with financial institutions, which are in excess of amounts insured by the Canada Deposit Insurance Corporation (CDIC) and the Ontario Deposit Insurance Corporation (ODIC). Management monitors the soundness of these institutions and considers the organization's risk to be negligible.

11. Commitments

VQA Ontario has committed to renew an agreement with the Wine Council of Ontario to provide funding in support of activities to promote the awareness, understanding and use of the VQA appellations in the amount of $250,000, for the next fiscal year.

The organization leases office space under a sub-lease, with the LCBO, expiring August 31, 2020. Future minimum lease payments total $253,600 and include the following payments over the next five years: 2015 to 2018, $38,400 per annum; 2019, $40,500.

Annual Report Photo Credits:
Steven Elphick's passion for wine and food translates itself into food, landscape and beverage photographs with a core of truth and beauty. He has been shooting wine professionally since 1988.
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Annual Report Design: Darren Richards
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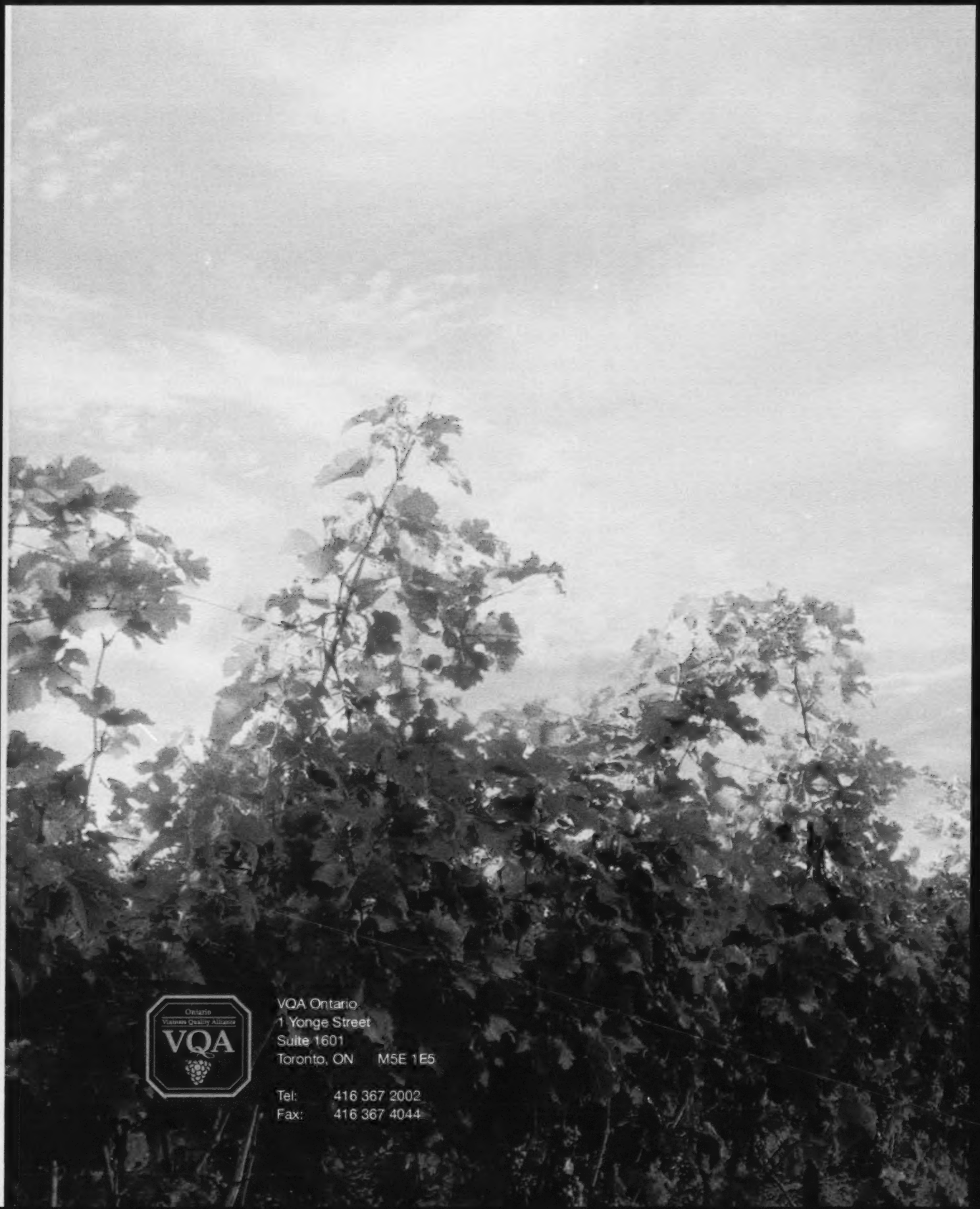

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